

December 2007

Flash Report

The Employees' Retirement System of the County of Milwaukee

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Consulting. Outsourcing. Investments.

Trustees' Summary

The Total Fund had an aggregate market value of just over \$1.60 billion at the end of December. The Total Fund declined 0.5% during the month, outpacing the Reference Index by 20 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, fell 0.7% during the month and small cap equity, as measured by the Russell 2000 Index, declined 0.1%. Growth outpaced value in both the large and small cap spaces.

The international equity markets dropped 2.2% in December, as measured by the MSCI EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, gained 0.4%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, advanced 0.3% during the month. High yield issues matched the broad market gaining 0.3%, as measured by the Merrill Lynch High Yield Index.

Recommendations and Comments

- Capital Guardian's International Equity assets were transitioned to Baring Asset Management at the end of October. Performance for Baring began in November.
- Mercer recommends that the ERS source the cash needed for benefit payments at the end of January from the international small cap equity segment of the Fund with \$10 million from Capital Guardian.
- Reinhart Partners was given an additional \$10 million in early December; \$5 million was sourced from Earnest Partners and \$5 million was sourced from Artisan Partners.
- The termination of Hotchkis & Wiley and subsequent investment in Russell Mid Cap Value iShares took place in mid December. Performance will begin in January and a manager search is currently underway.

MANAGER REPORTED PERFORMANCE

As of December 31, 2007

	Assets (\$ millions)	December	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,601.27	-0.5	6.5	6.5	10.0	13.8	8.5	8.2	—	
vs. Composite Market Index		-0.7	6.0	6.0	8.9	12.6	7.3	7.5	—	
CPI + 4% (1 Month in Arrears)		0.9	7.8	8.3	7.2	7.0	6.7	6.7	—	
<u>LARGE CAP VALUE EQUITY MANAGER</u>										
Boston Partners	130.61	-0.9	5.4	5.4	12.2	15.9	8.5	8.5	12.3	8/1/95
Boston Partners - Net		-1.0	5.2	5.2	12.0	15.7	8.3	8.2	12.0	
vs. Russell 1000 Value + 1%		-0.9	0.8	0.8	10.3	15.6	7.7	8.7	12.5	
S&P 500 + 1%		-0.6	6.5	6.5	9.6	13.8	4.3	6.9	10.9	
CPI + 6.5% (1 Month in Arrears)		1.1	10.7	10.8	9.7	9.5	9.2	9.2	9.1	
<u>LARGE CAP GROWTH EQUITY MANAGER</u>										
Mellon Capital Management - Ru 1000 Growth Index	81.03	-0.4	11.8	11.8	8.7	12.1	N/A	N/A	2.3	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		-0.4	11.8	11.8	8.7	12.1	N/A	N/A	2.3	
vs. Russell 1000 Growth		-0.4	11.8	11.8	8.7	12.1	0.2	3.8	2.3	
<u>LARGE CAP EQUITY INDEX</u>										
Mellon Capital Management - S&P 500	107.16	-0.7	5.6	5.6	8.7	12.9	3.4	6.0	10.6	4/13/95
Mellon Capital Management - S&P 500 - Net		-0.7	5.6	5.6	8.7	12.9	3.3	6.0	10.6	
vs. S&P 500		-0.7	5.5	5.5	8.6	12.8	3.3	5.9	10.6	
<u>MID CAP VALUE EQUITY MANAGER</u>										
iShares Russell Mid Cap Value	24.72	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	12/14/2007
iShares Russell Mid Cap Value - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell Mid Cap Value + 1%		-1.0	-0.4	-0.4	11.1	18.9	12.2	11.2	N/A	
CPI + 5.7% (1 Month in Arrears)		1.1	9.9	10.0	8.9	8.7	8.4	8.4	N/A	
<u>MID CAP GROWTH EQUITY MANAGER</u>										
Artisan Partners	26.36	0.2	22.0	22.0	14.1	18.1	7.9	N/A	7.7	6/12/00
Artisan Partners - Net		0.1	21.0	21.0	13.2	17.2	7.1	N/A	6.8	
vs. Russell Mid Cap Growth +1%		0.4	12.4	12.4	12.4	18.9	5.1	8.6	1.5	
CPI + 5.7% (1 Month in Arrears)		1.1	9.9	10.0	8.9	8.7	8.4	8.4	8.4	

(1) Total Fund returns represent actual returns through 9/30/2007 and estimated performance thereafter.

Policy Measures are Highlighted

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MANAGER REPORTED PERFORMANCE
As of December 31, 2007

<u>MID CAP CORE EQUITY</u>	<u>Assets (\$ millions)</u>	<u>December</u>	<u>Year To Date</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>7 Yrs</u>	<u>10 Yrs</u>	<u>Since Inception</u>	<u>Inception Date</u>
EARNEST Partners	25.00	0.2	9.0	9.0	N/A	N/A	N/A	N/A	11.7	2/18/05
EARNEST Partners - Net		0.0	8.1	8.1	N/A	N/A	N/A	N/A	10.8	
vs. Russell Mid Cap Index + 1%		-0.2	6.6	6.6	12.1	19.2	10.0	10.9	12.6	
CPI + 5.7% (1 Month in Arrears)		1.1	9.9	10.0	8.9	8.7	8.4	8.4	9.1	
Reinhart Partners	23.67	-1.0	6.6	6.6	N/A	N/A	N/A	N/A	13.4	2/18/05
Reinhart Partners - Net		-1.0	5.8	5.8	N/A	N/A	N/A	N/A	12.8	
vs. S&P 400		-0.2	8.0	8.0	10.3	16.2	8.8	11.2	10.6	
CPI + 5.7% (1 Month in Arrears)		1.1	9.9	10.0	8.9	8.7	8.4	8.4	9.1	
<u>SMALL CAP EQUITY MANAGERS</u>										
Westfield Capital Management	42.34	2.6	15.0	15.0	10.9	17.7	N/A	N/A	7.4	2/6/01
Westfield Capital Management - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell 2000 Growth		0.6	7.0	7.0	8.1	16.5	4.5	4.3	5.7	
CPI + 5.9% (1 Month in Arrears)		1.1	10.1	10.2	9.1	8.9	8.6	8.6	8.6	
AQR	37.45	-0.7	-9.6	-9.6	N/A	N/A	N/A	N/A	-4.4	10/2/2006
AQR - Net (1)		-0.7	-10.6	-10.6	N/A	N/A	N/A	N/A	-5.4	
vs. Russell 2000 Value		-0.8	-9.8	-9.8	5.3	15.8	11.2	9.1	-1.3	
Russell 2000 + 2%		0.1	0.4	0.4	8.8	18.2	10.1	9.1	7.7	
CPI + 5.9% (1 Month in Arrears)		1.1	10.1	10.2	9.1	8.9	8.6	8.6	8.4	
<u>INTERNATIONAL EQUITY MANAGERS</u>										
Baring (2)	101.90	-1.4	--	--	--	--	--	--	-6.2	11/1/2007
Baring - Net		-1.4	--	--	--	--	--	--	-6.3	
vs. EAFE + 1%		-2.2	12.6	12.6	18.3	23.1	9.8	10.0	-5.3	
CPI + 6.7% (1 Month in Arrears)		1.1	10.9	11.0	9.9	9.7	9.4	9.4	1.9	
Grantham, Mayo	143.95	-2.2	13.3	13.3	19.2	26.5	16.5	14.3	12.7	4/13/95
Grantham, Mayo - Net		-2.3	12.5	12.5	18.4	25.6	15.7	13.5	11.9	
vs. EAFE + 1%		-2.2	12.6	12.6	18.3	23.1	9.8	10.0	9.2	
CPI + 6.7% (1 Month in Arrears)		1.1	10.9	11.0	9.9	9.7	9.4	9.4	9.3	

(1) The AQR net numbers were calculated by Mercer, based off AQR's fee schedule.

(2) Capital Guardian assets were transitioned to Baring at the end of October.

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INTERNATIONAL SMALL CAP EQUITY MANAGER										
Capital Guardian	73.64	0.6	11.4	11.4	25.3	31.3	14.6	13.2	12.2	10/31/97
Capital Guardian - Net		0.6	10.8	10.8	24.7	30.6	14.0	12.6	11.6	
vs. MSCI World Ex U.S. Small Cap + 1%		-3.0	2.5	2.5	14.6	25.1	14.0	11.2	9.6	
CPI + 6.9% (1 Month in Arrears)		1.2	11.1	11.2	10.1	9.9	9.6	9.6	9.5	
CORE FIXED INCOME MANAGERS										
JPMorganChase	113.42	0.3	7.0	7.0	N/A	N/A	N/A	N/A	6.3	11/1/05
JPMorganChase - Net		0.3	6.8	6.8	N/A	N/A	N/A	N/A	6.1	
vs. LB Aggregate + 0.5%		0.3	7.5	7.5	5.1	4.9	6.3	6.5	6.4	
CPI + 2.6% (1 Month in Arrears)		0.8	6.8	6.9	5.8	5.6	5.3	5.3	5.2	
Mellon Capital Management	345.31	0.3	7.1	7.1	4.6	4.5	5.9	6.1	6.2	1/31/96
Mellon Capital Management - Net		0.3	7.1	7.1	4.6	4.4	5.8	6.0	6.1	
vs. LB Aggregate		0.3	7.0	7.0	4.6	4.4	5.8	6.0	6.1	
Loomis, Sayles	99.69	0.0	8.1	8.1	6.0	8.1	9.3	8.0	9.8	6/30/91
Loomis, Sayles - Net		0.0	7.9	7.9	5.9	8.0	9.1	7.8	9.7	
vs. Fixed Income Reference Index + 0.5% (1)		0.3	7.5	7.5	5.1	4.9	6.3	6.4	8.0	
LB Aggregate + 0.5%		0.3	7.5	7.5	5.1	4.9	6.3	6.5	7.8	
CPI + 2.6% (1 Month in Arrears)		0.8	6.8	6.9	5.8	5.6	5.3	5.3	5.4	

(1) The Fixed Income Reference Index consists of the 50/50 benchmark until May 1999 and the Lehman Brothers Aggregate Index thereafter.

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MANAGER REPORTED PERFORMANCE
As of December 31, 2007

HIGH YIELD FIXED INCOME MANAGER	Assets (\$ millions)	December	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Loomis, Sayles	120.79	-0.2	1.9	1.9	5.5	11.6	9.9	7.7	12.0	11/30/82
Loomis, Sayles - Net		-0.2	1.8	1.8	5.4	11.5	9.7	7.6	11.9	
vs. Merrill Lynch High Yield + 1.5%		0.4	3.7	3.7	7.0	12.1	9.7	7.3	N/A	
CPI + 5.0% (1 Month in Arrears)		1.0	9.2	9.3	8.2	8.0	7.7	7.7	N/A	
REAL ESTATE MANAGERS										
ING Clarion Real Estate Securities	55.35	-4.8	-15.4	-15.4	9.7	19.6	15.4	11.4	12.1	1/13/97
ING Clarion Real Estate Securities - Net		-4.8	-15.7	-15.7	9.3	19.1	15.0	10.9	11.6	
vs. Wilshire REIT Index + 1%		-5.2	-16.6	-16.6	9.5	19.3	16.2	12.1	12.8	
MSCI US REIT Index + 1%		-5.1	-15.8	-15.8	9.2	18.9	16.0	11.4	12.1	
CPI + 5.9% (1 Month in Arrears)		1.1	10.1	10.2	9.1	8.9	8.6	8.6	8.5	
VENTURE CAPITAL MANAGERS										
Adams Street Partners (1)	29.30	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (2)	--	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (1)	2.76	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	7/1/95

(1) Consists of the most recently available custody Market Value to account for the cash the manager does not include in their values.

(2) The assets invested with Adams Street Partners is aggregated to account for the custody cash.

Policy Measures are Highlighted

ASSET ALLOCATION
As of December 31, 2007

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Large Cap Equity	19.9 %	20.0 %	17.0 %	25.0 %
Boston Partners	8.2			
Mellon Capital Russell 1000 Growth	5.1			
Mellon Capital S&P 500	6.7			
Total Medium Cap Equity	6.2 %	6.0 %	4.0 %	7.5 %
Artisan Partners	1.6			
iShares	1.5			
EARNEST Partners	1.6			
Reinhart Partners	1.5			
Total Small Cap Equity	5.0 %	5.0 %	3.0 %	6.5 %
Westfield	2.6			
AQR	2.3			
Total International Equity	15.4 %	16.0 %	11.0 %	21.0 %
Baring	6.4			
Grantham, Mayo	9.0			
Int'l Small Cap Equity	4.6 %	4.0 %	0.0 %	7.0 %
Capital Guardian	4.6			
Venture Capital	2.0 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	53.1 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION
As of December 31, 2007

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Core Fixed Income	34.9 %	35.0 %	31.0 %	41.0 %
JP Morgan	7.1			
Mellon Capital	21.6			
Loomis, Sayles	6.2			
High-Yield Fixed Income	7.5 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	7.5 %			
Cash	1.0 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	43.5 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	3.5 %	3.0 %	0.0 %	7.5 %
ALTERNATIVE INVESTMENTS	0.0 %	0.0 %	0.0 %	0.0 %
TOTAL	100.0 %	100.0 %		

**Average Credit Quality
of current Fixed Income managers**

JPMorgan:	AAA
Mellon Capital Management:	AA1/AA2
Loomis Investment Grade:	A1
Loomis High Yield:	Ba3

**Mercer Ratings for
Current Managers**

<i>Large Cap Eq</i>	Mercer Rating	<i>Int'l Small Cap Eq</i>	Mercer Rating
Boston Partners	A-	Cap. Guardian	N
Mellon Russell 1000 Growth	N ¹		
Mellon S&P 500	N ¹		
		<i>Core Fixed</i>	
		JP Morgan	B
		Mellon	N ¹
		Loomis, Sayles	B (T)
<i>Mid & Small Cap Eq</i>			
Artisan	B+		
iShares	N		
EARNEST Partners	B+		
Reinhart & Mahoney	N		
Westfield	B+		
AQR	A		
		<i>High Yield Fixed</i>	
		Loomis, Sayles	B (T)
<i>Int'l Eq</i>			
Baring	A-		
Grantham, Mayo Intl Intrinsic Value	A		
Grantham, Mayo Intl Small Company	A		
		<i>Real Estate</i>	
		ING Clarion	N

¹ Mercer no longer rates index funds, however, Mercer considers Mellon to be a top tier index provider.

**The Employees' Retirement System of the County of Milwaukee
Proposed Investment Manager Due Diligence 2008**

<u>Date</u>	<u>Managers Invited to Present</u>
16-January	Westfield
13-February	EARNEST Partners
20-February	Loomis Sayles
19-March	Artisan
16-April	Baring
21-May	Boston Partners
18-June	Adam Street Partners
16-July	ING Clarion
20-August	AQR
17-September	Capital Guardian
15-October	GMO
12-November	JP Morgan
17-December	Reinhart Partners

Notes:

The format and timings of all investment manager presentations are to be dictated by the Pension Board. Suggested discussion outline attached for all but venture capital, real estate managers and Loomis Sayles (who have to present two strategies under management).

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